

**Comparison of MACO Tax Reform Bill (SB258, 1997)
with Peterson Tax Reform Bill (HB749, 2003) and
Mangan Tax Reform Bill (SB470, 2003)**

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A Comparison of the Provisions of SB258 (MACO, 1997), SB470 (Mangan, 2003) and HB749 (Peterson, 2003)

This document provides a comparison of features other than sales tax features of selected sales tax bills. A comparison of the sales tax rate, base and vendor allowance of these bills is provided in an accompanying document.

Individual Income Tax

SB258

No changes to individual income tax.

SB470

- Reduces current law 10-tier rate table with rates ranging from 2% to 11% to a 7-tier table with rates ranging from 1% to 6.9%.
- Caps the current law deduction for federal income taxes paid during the year at \$6,000 (\$12,000 for married couples filing jointly).
- Provides for a *non-refundable* credit against individual income tax equal to 2% of net capital gains income.

HB749

- Repeals the current law taxable income brackets (10) and marginal tax rates ranging from 2% to 11%, and replaces them with a single, flat rate of 5.75% of taxable income.
- Provides for an exclusion of 50% of capital gains income from taxation.
- Increases the personal exemption for taxpayers, spouses and dependent children (but not the additional exemption for the elderly and the blind) from an \$1,840 to \$5,740 beginning with tax year 2004.
- Eliminates the current law deduction for federal income taxes paid during the tax year.

Sales Tax Credit

SB258

SB258 provided for a *refundable* sales tax credit against individual income taxes. A dollar amount of credit was provided for each person in the household that qualified for a personal exemption under the income tax laws, and was based on gross household income as follows:

<u>Household Income</u>	<u>Credit Per Exemption</u>
\$ 0 - \$15,999	\$ 90
\$16,000 - \$17,999	\$ 80
\$18,000 - \$20,999	\$ 50
\$21,000 - 22,999	\$ 30
\$23,000+	\$ 0

SB470

SB470 provided for a refundable sales tax credit against individual income taxes. A dollar amount of credit was provided per household, irrespective of the number of persons in the household, based on household income as follows:

<u>Gross Household Income</u>	<u>Sales Tax Credit</u>
\$ 0 - \$16,000	\$300
\$16,001 - \$20,000	\$250
\$20,001 - \$25,000	\$200
\$25,001 - \$30,000	\$150
\$30,001 - \$35,000	\$100
Over \$35,000	\$0

HB749

No sales tax credit in the bill. However, Representative Peterson was developing a sales tax credit against individual income taxes that was the same as that provided for in Senator Mangan's bill (SB470).

Property Tax Changes And Relief

SB258

In addition to providing major tax reform through implementation of a general retail sales tax, SB258 also would have significantly simplified and reformed Montana's property tax structure as follows:

- The current property tax classification system would have been eliminated in its entirety, and the taxable value of property would have equaled market value for all taxable property in the state.
- Most personal property would have been exempted from taxation. (However, the bill redefined certain property currently considered to be personal property as real improvements, e.g., railroad railbeds, telephone lines, etc.)
- Exempted livestock from taxation. (Livestock has subsequently been exempted from property taxation.)
- Eliminated the current law preference for one acre of land beneath a farmstead, which at the time was valued at the highest grade of grazing land.
- Provided for a homestead exemption equal to 65% of the first \$50,000 of market value of residential property (maximum exemption of \$32,500); applied to owner-occupied, single-family, primary residences only. (Other legislation has subsequently provided for the current homestead and comstead exemptions.)
- The following mill levies would have been eliminated:
 - 6-mill university levy
 - 95-mill equalization levies
 - School retirement levies
 - School transportation levies
 - School mill levies used to fund the base portion (80%) of a district's general fund budget

(Schools would continue to levy mills (if necessary) to fund the above-the-base portion of the district's maximum general fund budget.)

- Redefined market value for certain property types as follows:
 - Mines net proceeds at 100% of 14 times the annual net proceeds.
 - Mines gross proceeds at 100% of gross proceeds.
 - Agricultural land at 100% of productive capacity.
 - Forestland at 100% of productive capacity.

- 20 - 160 acres land at 7 times productive capacity of grazing land, average grade.
- The following taxes and programs would have been repealed:
 - The rail car tax.
 - The property tax assistance program.
 - HB20 and SB417 reimbursements.

SB470

School Equalization Tax Credit – *Individuals*

Refundable credit against *individual income tax* equal to property tax associated with 101 university and school equalization mills. Credit up to a maximum of \$20,000 must then be multiplied by the ratio of the taxpayer's Montana source income to total income.

School Equalization Tax Credit – *Business*

Refundable credit against *corporation license tax* equal to property tax associated with 101 university and school equalization mills. Credit up to a maximum of \$20,000 must then be multiplied by the ratio of the taxpayer's Montana source income to total income. (Credits claimed by subchapter-S corporations and partnerships must be allocated to shareholders or partners in the same manner as income or loss.)

SB470 also repealed the current law phase-out of business equipment taxes contingent on hitting the wage and salary growth trigger.

HB749

HB749 provided for the same school equalization tax credits as discussed above under SB470. However, under HB749 the credit was not capped at \$20,000. HB749 did not repeal the business equipment taxes phase out trigger.

School Finance

SB258

The bill would have funded 100% of every school district's base budget (80% of the district's maximum general fund budget) with sales tax, thereby eliminating all base mill levies.

School retirement (net of fund balances reappropriated) and transportation schedule amounts also would have been funded 100% with sales tax.

SB470

Guaranteed tax base aid to support schools' general funds is eliminated. (Tax base aid would continue to fund retirement and school facilities.)

HB124 block grants to schools are eliminated.

State will fully fund the base budgets of school districts (80% of basic and per-ANB entitlements) from the guarantee fund, the sales and use tax account, and the state general fund. (Current mill levies to fund the base budgets of schools would therefore also be eliminated.)

HB749

Same as SB470.

Corporation License Tax

SB258

No changes.

SB470

No changes.

HB749

Provided for an exclusion of 50% of capital gains income from taxation for corporation license tax purposes.

Natural Resource Taxation

SB258

SB258 would have changed the distribution of oil and gas production tax revenue by basing the distribution on *current* fiscal year mills (as opposed to current law which allocates based on mills levied in FY1990), but only for those taxing jurisdictions receiving a distribution in FY1990. (Subsequent legislation has made this a moot issue.)

SB470

SB470 removed the statewide general fund mill levies from the non-levy revenue distribution formulae for the oil and gas production tax. This would have reduced revenue going to the state general fund from these sources, and redistribute a like amount of revenue to schools and local governments. (Subsequent legislation has made this a moot issue.)

HB749

No changes.

Other Tax Provisions

SB258

SB258 would have changed the taxation of motor vehicles as follows:

- IRP (interstate fleet) vehicles would have been taxed at 2% of depreciated original cost (acquisition value), apportioned for mileage in Montana to total miles.
- Buses and trucks over one ton would also have been taxed at 2% of values found in used truck appraisal guides, or average wholesale value (at the time, these vehicles were taxed as Class 8 personal property).
- Would have allocated 20% of the revenue from the 2% tax on light cars and trucks, and buses and trucks over one ton, to the state general fund.

SB258 would have increased the Telephone Company License Tax rate from 1.8% to 6.1%.

All of the above changes have been rendered moot by subsequent legislation.

Voter Approval / Contingent Termination Provisions

SB258

The legislation provided that the bill be submitted to the voters at a special statewide election to be held September 9, 1997 in conjunction with the primary election for municipal officers.

SB470

The legislation provided that the bill be submitted to the voters at a general election to be held November 4, 2003.

HB749

The bill provided for contingent termination on December 31, 2009 unless the Legislature referred a measure extending the sales and use tax laws to the electors at the November 2008 general election, and the electors approved the measure.

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